

April 12, 2005

HONORABLE CITY COUNCIL

I am here today to present to you the budget for the 2005-2006 fiscal year.

The budget I present today is the result of months of in-depth review of both the services performed by every city department and the revenue sources that provide the funds to pay for those services.

I want to acknowledge at the start that I realize this is a political year. But this budget is not about politics. This is about the future of Detroit. As we deliberate on this budget, I want to express to you my commitment to leave the politics at the door and work cooperatively for what is best for Detroit. I urge you to join me in that effort.

When we started to prepare this budget plan for the city, we faced a projected revenue shortfall of more than \$300 million for the coming fiscal year.

There are two primary reasons for that. The first is the economy, particularly our state economy which continues to rank at the bottom nationally in performance. Two of our primary revenue sources – income taxes and state revenue sharing funds – are directly connected to the health of the economy. The record gasoline prices we see at the pumps these days do not bode well for our immediate future, with their potential impact on the auto industry.

The second involves structural costs that all of us at this table have inherited. These costs were built in during earlier years when times were better and the costs represented a much smaller part of the overall budget. But they have become suffocating in their effect on this city and its ability to provide basic services to our residents.

The primary built-in cost that we must address this year is health care. We are not alone in having to face reality in this area. Employers of all sizes, including the big three, have been coping with this reality for a number of years now.

But while others have been making changes in their health care coverage to recognize this new reality, we in the City of Detroit have not. We are saddled with a 1985 health care plan in the midst of a 2005 economy. We must make some changes.

Our health care costs have gone up \$78 million, or 46 percent in the last three years alone— at a time when we can least afford that. Just last week, as we were preparing this budget, Blue Cross called us to tell us our bill will be going up another \$40 million in the coming year.

Rising City pension costs also have had a crippling effect on our treasury. During the 1990s when the stock market was at its peak, there were a number of years that the city did not have to pay anything into the General Retirement and Police and Fire pension funds because their investments were doing so well. But that has changed. This year we had to pay \$177 million to these two funds out of our general fund because the City has to make up the loss of our pension funds. That is \$120 million more than just three years ago.

That means rising health care costs and pension costs alone cost us \$200 million more than they did just three years ago. That is two-thirds of the shortfall we faced when we started preparing this budget.

As part of our comprehensive effort to address the looming shortfall in a structured way, in early January we convened the Detroit Economic Forum. Experts from around the country examined our financial situation, and the steps we must take to restructure government in the 21<sup>st</sup> Century.

The two-day forum provided a very sobering look at where we are and what will be required for us to work our way out of this situation. Out of it came a comprehensive report, Detroit Fiscal Challenges and Options. Copies were sent to each of you and I'm sure you've all read it from cover to cover.

The report included a set of recommendations for changing the structure of government as well as a number of options for additional revenue. Two of those options are included in this budget. A number of others are still under consideration. The only one that I have completely ruled out at the moment is a city sales tax increase.

The report also helped put our current situation in context. Fifty years ago the City of Detroit was America's fourth largest City, home to nearly two million people... but today we are under one million. That exodus has continued in good times and bad. Even in the midst of the most sustained period of economic growth in the nation's history and the most robust budget years the city has ever seen, from 1995 to 2000, nearly 90,000 people left Detroit.

When Mayor Coleman A. Young took office in 1974, this City had about 1.5 million residents... and the City of Detroit employed almost 30-thousand workers.

As the City's population declined and a series of economic downturns cut into City revenues, Mayor Young made a continuing series of cuts in the workforce.

When he left office at the end of 1993, the number of City employees was down to about 17-thousand.

In the next few years, Detroit benefited greatly from the unprecedented period of national prosperity that this country experienced under President Clinton. Detroit was relatively flush with cash. But instead of holding the line and spending the money on infrastructure, reengineering and smart technology, the City added to its employment levels.

As a result, even as the City's population continued to decline, the number of City employees grew 17 percent, government spending jumped 22 percent, and overtime doubled.

Then, as the national economy started cooling off in 2001, the flow of money into our city treasury slowed. When I took office in 2002 we were handed a growing deficit of \$75 million dollars. We were able to close that gap, but each year we have been forced to close an ever-growing gap between the revenues that are available and the demands built into our budget.

Each year, we have reduced the size of government and worked to balance the budget by doing more with less.

We've saved millions by streamlining and improving City services. One example is in the area of trash collection. We overhauled the entire trash collection system, for the first time collecting trash in zones, saving money and increasing performance. We've been cutting the grass in our parks on a 7 to 10 day rotation. We've repaired and paved more city streets than ever. We are doing more with less.

We're saving millions by slashing and – for the first time in recent history – aggressively managing overtime. We have cut overtime 43 percent for non public safety employees from where it was in 2001. We also have cut more than 3,000 positions from city government. But even with all these savings and cuts, the problem continues to confront us.

In recent months we've heard some sniping in the media about how this tough budget should have been done years ago. The question is, how many years ago? One? Two? Five? Ten? Hindsight, as the saying goes, is always 20-20. The fact is we all need to move forward from this day on. We have oncoming traffic ahead of us and it's coming fast. The City of Detroit, Wayne County, the Detroit Public Schools, the Big Three, the State of Michigan, all are facing financial challenges. Looking in the rearview mirror wastes time and is, quite frankly, dangerous when we need to keep our eye on the road ahead to respond to that oncoming traffic.

A careful review of the facts shows we have been balancing and re-balancing our budget since we took office. We have done it in a way that attempts to preserve as many services, and as many employee jobs, as we possibly can.

We didn't come in with a meat ax and just start cutting departments indiscriminately. We've reviewed each operation and achieved efficiencies on a department-by-department basis. Even as we have done that, however, we've had to make some hard decisions.

This year we must again make the hard choices to live within our means. There are some very tough decisions in this budget, decisions many of us will not be happy with. But in order for us to grow as a City, we have to start now.

Under the budget I am presenting to you, our City will be managed in a new way. This budget involves a fundamental restructuring and reengineering of City government to be fully implemented and completed in the new budget year.

This budget was not done overnight, or in a few weeks or even months. Rather, it incorporates more than 18 months of work coordinated by the Strategic Management Center (SMC), which has conducted aggressive research and strategically looked at the City's structure both vertically and horizontally.

They have identified what works, what does not and have made recommendations that are in line with my administrations strategic priorities-improving financial health, improving public safety, improving city services, and accelerating economic and business development. Fiscal management decisions are based on sound research, examining what our peers are doing across the county, and listening to our citizens. This budget that I present to you involved months of hard work that resulted in making tough and smart decisions that will put us on the path to building a new Detroit.

It is a different budget than has ever been presented to our city council.

Every budget is based on a series of assumptions, based on our experience and our goals. This budget is no exception. It contains a number of measured assumptions.

These assumptions include a belief that if we are to start Detroit back toward solid financial ground it will demand participation from everyone... from the Mayor's Office to your Honorable Body, to city employees, to labor groups, to contractors, to vendors, to others who do business with the City of Detroit. We cannot conduct ourselves as if it is still 1970 or 1985 or even 1995. We must conduct ourselves in a way that deals with the realities of 2005.

The first of these assumptions involves a renegotiation of our health care contracts with City employees. As I said earlier, we are saddled today with 1985 health care agreements in a 2005 health care economy. For example, our prescription co-pays of \$2 and \$5 are co-pays that disappeared years ago in the private sector. They are a luxury we simply cannot afford. This budget assumes that we will achieve savings of some \$47 million in the coming year through renegotiation of our health care coverages. That savings, by the way, would only hold our health care spending to its current level because we just had an increase of \$40 million from Blue Cross and \$7 million from our HMOs.

This budget also assumes we will be able to reach agreement with our employee bargaining units to achieve a 10 percent pay cut through a total of 26 days without pay, or as they are commonly known, DOWOPs.

The idea is not a new one. Those who have been around for a while will remember that the original concept for DOWOPs came from the late Mayor Coleman A. Young in the early 1990s during our last economic downturn. It took a while for Mayor Young to achieve his goal, with the last bargaining units signing on nearly three years after the idea was surfaced. We cannot afford to wait that long.

I recognize some of our unions already have indicated they aren't interested in DOWOPs. We plan to engage in further discussions with them to attempt to find a common ground. If we cannot reach an agreement with our employees, then the cuts will have to come in other, more painful ways that will mean a reduction in city services.

One other option we considered earlier is not possible at the moment. Earlier we had indicated to our employee unions that we were considering an early buyout option for long-term employees. After a careful analysis by a nationally respected public agency retirement services corporation, it is clear that early retirement incentives are not possible at this time. The determining factor was a change in IRS guidelines that prohibited a payout of sick leave and accrued vacation over a five-year period. However, we are not giving up! We will continue to explore every opportunity to pursue this option for our employees.

This budget continues the day-to-day services people expect from city government. It continues Courville trash collection on its current schedule, it continues the cutting of grass in all of our parks in seven to 10 days, it continues the resurfacing of our streets at a record pace. But if we cannot reach an agreement with our employees on shared benefit reductions, then the cuts will have to come in other more painful ways that will mean a reduction in city services.

We cannot spend money we do not have.

This budget also assumes that we will adopt two new sources of revenue in Detroit, a fast food tax and a property transfer tax. Both will require approval of city voters. The fast food tax would apply only to fast food restaurants. We're asking for a 2 percent tax. That means if a Happy Meal costs \$2.99, the total cost will be \$3.05, with the six cents coming to the City. If you buy a medium fry for \$1.05, the total cost will be \$1.07, with the two cents going to the city. It's a small amount for the individual customer, but it adds up to a meaningful amount to preserve essential city services.

The property transfer tax will apply to the sale of property in the city and will be assessed as a part of the closing costs. Together, they will raise roughly \$15 million in the coming fiscal year.

Our city services rely on the diligence and hard work of many thousands of dedicated City employees. I have not chosen a fiscal management strategy that cuts for the sake of cuts because that would be a short-term solution to a long term problem, it would cripple critical city services and it would negatively impact the lives of many City employees and our residents.

While reductions are inevitable, we must make smart decisions that will maintain our core services, reduce costs and place our city on the track of financial health and prosperity. To do this means changing the way we conduct business-operationally and structurally and enduring sacrifices in order to ensure a future for Detroit.

This budget creates a new form of city government that will dramatically reduce costs and improve the quality of services for all citizens through four types of cost savings strategies including business process reengineering, consolidation of existing departments, spin-off operations, and divestiture or discontinuation of services.

While this plan is a radical departure from the City's current structure, we believe that it is a very necessary move at this point in time in order to assure financial independence and stability both now and in the future.

This budget divides City services into seven categories, each of which would be headed by a cabinet-level appointee. By consolidating a number of departments, it would have a net effect of eliminating several appointee positions, including department heads.

The seven categories are: Public Safety, Economic Development, Health and Human Services, Municipal and Environmental Services, General Services, Administrative Services and Financial Services.

The Public Safety category will include Police, Fire, Homeland Security. In addition to its current duties, the Office of Homeland Security also would supervise internal security services for city departments who now contract separately for their security services. By consolidating these security services under this umbrella, we can realize substantial savings by standardizing contracts and security standards.

The Economic Development category will be coordinated under the Chief Development Officer and has the primary purpose of strengthening and revitalizing the City of Detroit's neighborhoods and communities and to stabilize and transform the physical, social, and economic environment. It is a consolidation of Planning and Development, the Office of Neighborhood Commercial Revitalization, and the Department of Workforce Development.

The category of Health and Human Services will consist of activities now performed by the Health and Wellness Promotion and Human Services Departments. Consolidation of both the funding and facilities that support these activities will reduce administrative and overhead costs and improve the quality of health and social services for Detroit's citizens through coordination across two very similar systems.

Our extensive review found that in many cases the services currently offered by these two departments were contracted to the same organizations. In some cases they actually contracted with each other. By coordinating these two departments, they can work in synergy to create more efficiencies in the services they provide to residents.

Also in that group will be the new Department of Community Services, which will combine the Recreation and Senior Citizen Departments, along with the at-risk programming in the Human Services Department.

The new Municipal and Environmental Services Department will consolidate the current departments of Environmental Affairs, Public Lighting and Public Works, and some functions of the Health Department. By focusing on core services, departments can realize operational efficiencies, reduce administrative overhead currently sustained by individual departments and create a single support shared services unit for the entire department.

The General Services Department will be an asset management for the entire City, concentrating on providing support services such as fleet management, asset management, 311 Call Center, and facilities and equipment management. It will maintain all city-owned facilities, grounds and parks. It will purchase and/or lease vehicles for City departments. It will procure and manage office space for City staff and facilities. And it will provide customer service excellence and accountability to City residents.

This consolidation in Municipal and Environmental Services and in the General Services Department will reduce layers of management throughout the city of Detroit by merging three distinct departments into one cross functional but mutually beneficial department. In doing this the city of Detroit will realize a reduction in administrative and overhead costs and also enhance the quality of service provided to the citizens by focusing less on administration and more on core service delivery.

The Administrative Services category will consolidate Human Resources, Law, Informational Technology Services and the new Communications Services Department, which will consolidate the Cable Commission and CCSD under one umbrella.

The Financial Services category will consolidate the operations of Finance and Budget.

In addition, this budget envisions a change in status for several other departments that would maintain city ownership of the assets but would involve agreements to transfer day-to-day operation to another entity, much the same as the DIA is now operated by the Founders Society but still remains a city asset. Both the Detroit Zoological Park and the Historical Museum would be transferred to their respective societies following the negotiation of a management agreement.

In addition, the budget envisions creation of a regional authority to manage Cobo Center and an agreement transferring the management of the Detroit Department of Transportation to the Detroit Area Regional Transit Authority (DARTA). For too long, this has been the only major urban area in America without a fully functioning regional transit authority. This budget would put an end to that situation.

The Department of Culture, Arts and Tourism will be completely eliminated from the current budget but some functions, such as the arts grants program and the Film Office, will be transferred to other city divisions.

I propose this plan knowing that change automatically meets with resistance from some. Resistance to change is not a new phenomenon. 500 years ago Machiavelli wrote, "There is nothing more difficult to plan, nor more doubtful of success, nor more dangerous to manage, than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old institutions and merely lukewarm defenders in those who would gain by the new."

In more recent years, Eleanor Roosevelt told us, "You must do the thing you think you cannot do."

If we want our City to grow and prosper, we must try a new way. We must do the things we think we cannot do.

Even with the savings we are working to achieve, this budget anticipates an additional 754 layoffs will be needed in the coming year. There will be cuts in every part of our General Fund, both uniform and civilian departments.

In the police Department, we are suspending the existing classes at the academy and will reduce the number of commanders and inspectors. But let me assure you that not one police officer who is out there patrolling the streets today will be laid off.

These men and women have been doing their job and driving down crime. Major crimes in our city last year were at their lowest level since 1963 – Jerry Cavanagh's second year as Mayor. The chief has put together an excellent leadership team. The men and women of the department are on the street and are doing their job. Their investigations are getting better. We want to keep that team intact.

I must add one word of caution, however. We won't be able to sustain this no-layoff approach in the Police Department for those police officers on the street if their union doesn't come to the table and renegotiate their benefits with us along with our other unions.

This budget also calls for 61 layoffs in the Fire Department, but the commissioner has assured me he can absorb this cut without having to close any fire stations.



And it lays off 47 EMS personnel, which will result in closing down the four Echo units that the department operates to augment services offered by transport units.

We also will be making some cuts in our bulk trash pickup. Bulk trash pickup is a relatively new service in Detroit that was instituted when the Courville containers became standard. Other cities do not provide the same level of bulk pickup service. For instance, Chicago only does it twice a year.

A review of the past several years shows that the busiest months for bulk pickup are May, June, July and January. The four lightest months are November, December, February and March. So we will be eliminating bulk service in those months. That means that this budget will provide bulk pickup from April through October and then in the month of January. We are planning a strong education program to assure that our citizens are aware of this new schedule.

As I said at the beginning of my remarks, this budget is not about politics. This is about the future of Detroit.

I know there are some difficult decisions in this budget and that difficult decisions lie ahead for your Honorable Body. But we cannot spend money we do not have. And we must be realistic in setting our spending plans for the coming year.

If we put our heads in the sand, if we pretend that by ignoring our problems they will just go away, they won't. They will get worse.

The budget I present to you today is about the future of Detroit, not politics.

If we can put our differences aside and work together for the common good, we can make things better.

Thank you.

Sincerely,

Mayor